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Before the
Federal Communications Commission
Washington, D.C. 20554

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of)
)
Amendment of Part 1 of the Commission's)
Rules — Competitive Bidding)
)
Broadband PCS C and F)
Block Payment Issues)

WT Docket No. 97-82

DA 97-679

DOCKET FILE COPY ORIGINAL

To: The Commission

REPLY COMMENTS OF BELL SOUTH

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SUMMARY

The Commission has raised \$23 billion in auction revenue, but much of that is in the form of installment debt. If the Commission grants the relief requested, it will have to report to Congress that it has caused billions of dollars in auction revenue owed by licensees to disappear into thin air, and the \$23 billion will have to be written down, at the expense of the U.S. taxpayer.

The Commission does not have authority to “restructure” licensee installment debt. Congress has addressed this squarely in the Debt Collection Act, which resolves the Commission’s conflict between being a regulator and a lender. Under the DCA, the General Accounting Office and Department of Justice have promulgated government-wide guidelines concerning debt collection, and the Commission’s own regulations and decisions acknowledge that the DCA and federal guidelines are applicable. Moreover, the Justice Department alone can compromise debt owed the government. The Commission can do no more than make its recommendation.

None of the commenters supporting debt restructuring addressed the DCA or supplied any solid legal basis on which the Commission could lawfully reduce the licensees’ indebtedness. NextWave’s claim that the Commission can do this under Section 4(i), 303(r), or 309(j) is unpersuasive. None of these sections grant the Commission authority to write off debt owed the Treasury. Moreover, while Section 309(j) gave the Commission authority to adopt installment payment plans, it does *not* contain any provision allowing the Commission to change the amount owed the government as the result of an auction, *after* the installment plans have been established, *after* the auction, and *after* the grant of licenses conditioned on paying in accordance with the rules.

The C and F Block licensees won their licenses by bidding voluntarily, with full knowledge of the facts — namely, that the C block prices exceeded the A and B block prices, that they would require massive infusions of capital, and that market conditions could change rapidly. They received their licenses after repeatedly outbidding others. What is the point of having an auction if the winning bidder is not held to the auction outcome? If the Commission grants the relief requested here, what will it do a year later, when licensees return for more favors? The only way to avoid replacing auctions with repeated handouts is to avoid the slippery slope altogether by sticking to the rules. All C and F block applicants were aware that the terms of their participation in the auction were not negotiable and agreed to be bound. They also certified to the Commission under penalty of perjury that they were financially qualified to construct and operate systems if they won.

There is no need for a detailed financial showing requirement in an auction if the winner’s obligation to pay for its licenses must be satisfied at the time of grant, but this is not the case when the government is providing financing, as the requests for relief demonstrate. The Commission should ensure that this does not occur again in the future by adopting detailed financial showing requirements for future auctions involving financing packages.

As some petitioners admit, the “restructuring” is far more than a rescheduling of payments — it is indeed a write-down of the loan, even after the 25% bidding credits and installment financing. A discounted cash flow analysis of the consequences to the U.S. Treasury and the American taxpayer of the “restructuring” shows reductions in value to the Taxpayer of as much as 58.2 percent from the existing debt. Some commenters even ask for elimination of interest

altogether, which could virtually eliminate any value from the auction “revenues” the commission has generated.

In essence, the licensees seeking relief are like homeowners whose mortgages exceed the market value of their houses, because they bought above market. Now they discover that they cannot get second mortgages, and they are asking their mortgage lender to refinance at fifty cents on the dollar and convert the mortgage to a second mortgage. The Commission should decline such requests, as any rational banker would.

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To: The Commission

REPLY COMMENTS OF BELL SOUTH

BellSouth Corporation ("BellSouth"), by its attorneys, hereby replies to the comments in response to the Wireless Telecommunications Bureau's Public Notice, *Wireless Telecommunications Bureau Seeks Comment on Broadband PCS C and F Block Installment Payment Issues*, WT Docket 97-82, DA 97-679 (June 2, 1997) (*Public Notice*).

In announcing the start of its preparation of a report to Congress on the auction regime, the Commission declared that "[a]uctions to date have raised a total of \$23.1 billion for the U.S. Treasury."¹ In fact, auctions have not raised that amount in cash revenues. A significant portion of that total has been raised in debt obligations payable to the Treasury by virtue of the Commission's installment payment plans. The requests that are at issue in this proceeding would either write off or defer payment of much of the debt owed to the Treasury, making the \$23 billion figure a pipe dream. If the Commission grants the relief requested, it will have to report to Congress that it has

¹ *Commission Opens Inquiry on Competitive Bidding Process for Report to Congress*, Docket WT 97-150, *Public Notice*, FCC 97-232 (July 2, 1997).

caused billions of dollars in auction revenue owed by licensees to disappear into thin air. The Commission cannot take credit for raising funds to reduce the deficit if it gives those funds away. Congress will not be able to rely on auctions as a source of revenue if the Commission allows licensees to avoid their obligations while holding on to their spectrum.

Congress charged the Commission with using auctions to resolve application conflicts not only to raise revenues for the Treasury, but also in order to speed service to the public. In fact, the first objective set by Congress regarding the design of competitive bidding systems was “the development and rapid deployment of new technologies, products, and services for the benefit of the public, including those residing in rural areas, *without administrative or judicial delays*.”² Since Congress specifically directed the Commission to pay special attention to “judicial delays,” it should, when possible, avoid taking actions that are certain to result in litigation that may ultimately delay the roll-out of new services. Granting requests to “restructure” C and F block installment payments in any significant way is guaranteed to end up in court and will almost certainly result in significant delays before the license ends up in the hands of a company financially capable of providing quality service to the public.

I. THE COMMISSION LACKS LEGAL AUTHORITY TO COMPROMISE LICENSEES’ DEBT

BellSouth demonstrated in its Comments that the Commission is legally barred by Title 31 of the United States Code from compromising the claims owed to the Treasury by the C and F block licensees on installment payment plans. None of the commenters favoring reduction of the amount owed cited any legal authority under which the Commission can take such action, and none of the commenters suggested any way in which the Commission can avoid the legal restrictions imposed

² 47 U.S.C. § 309(j)(3)(A) (emphasis added).

by Title 31. Indeed, the Commission's own regulations make clear that the agency is bound by Title 31.

A. The Debt Collection Act and the Federal Claims Collection Standards Are Clearly Applicable

The relevant part of Title 31 is a codification of the Debt Collection Act ("DCA").³ The DCA was enacted in 1982 because of rapidly increasing delinquent loans and other debt owed to the government,⁴ which was due to the fact that "[a]gencies do not have the motivation, resources, or tools to be aggressive and effective debt collectors."⁵ In other words, the DCA was intended to address the conflict between agencies' dual roles as regulators and as creditors. Congress emphasized the need for rigorous enforcement and collection of government obligations in terms that are particularly relevant here:

When delinquent debts are not collected, debtors receive benefits to which they are not entitled. In addition, the financial burden of delinquent and defaulted debt increases the cost of government. . . . Finally, these uncollected debts contribute to a loss of confidence in the government and its programs by the taxpayers.⁶

The requirements of the DCA for government debt collection are principally implemented in the Federal Claims Collection Standards ("FCCS"), a set of regulations jointly issued by the General Accounting Office ("GAO") and the Department of Justice ("DOJ"), found at 4 C.F.R. Parts 101-105. In accordance with these regulations, the Commission adopted its own DCA implementation regulations in Part 1, Subpart O of its Rules.⁷

³ Pub. L. No. 97-365, 96 Stat. 1749 (1982), (codified as amended at 31 U.S.C. § 3701 *et seq.*, 5 U.S.C. § 5514).

⁴ S. Rep. No. 97-378, at 2-3 (1982) ("DCA Senate Report").

⁵ DCA Senate Report at 3.

⁶ DCA Senate Report at 4.

⁷ 47 C.F.R. §§ 1.1901-1.1952; *see Amendment of Part 1 of the Commission's Rules and Regulations Regarding Implementation of the Debt Collection Act of 1982 and Related Statutory Provisions*, GEN Docket No. 87-570, *Report and Order*, 4 F.C.C.R. 441, 441 (1988) ("DCA

The Commission's DCA rules state that the Commission will follow the FCCS where applicable.⁸ In particular, the Commission's rules state explicitly that those standards govern the exploration of compromise, suspending or terminating collection action, and referrals to DOJ or GAO.⁹ The FCCS requires federal agencies, including the FCC, to "take aggressive action, on a timely basis with effective followup, to collect all claims of the United States for money or property arising out of the activities of, or referred to, that agency."¹⁰ Progressively stronger demand letters must be sent at intervals prompt enough to ensure that, if necessary, referral of the debt¹¹ can be made to DOJ for litigation within one year.¹²

Moreover, the standards include regulations governing the compromise of claims pursuant to 31 U.S.C. § 3711,¹³ which requires the Commission and other federal agencies to try to collect all claims and permits DOJ alone to compromise large claims. Section 103.1(b) of the FCCS provides that the authority to compromise any claim, exclusive of interest, which exceeds \$20,000 rests *solely with the DOJ*, and that claims for which the gross amount is over \$100,000 shall be

Implementation Order"); *Notice of Proposed Rule Making*, 2 F.C.C.R. 7339, 7339 (1987) ("*DCA Implementation NPRM*").

⁸ See 47 C.F.R. § 1.1904(b).

⁹ See 47 C.F.R. §§ 1.1915 (following the standards set forth in 4 C.F.R. Part 103); 1.1916 (following the standards set forth in 4 C.F.R. Part 104); 1.1917 (following the standards set forth in 4 C.F.R. Part 105).

¹⁰ 4 C.F.R. § 102.1.

¹¹ A "claim" is synonymous with the term "debt," and is defined broadly to mean "an amount of money or property which has been determined by an appropriate agency official to be owed to the United States from any person, organization, or entity." 4 C.F.R. § 101.2(a). The Commission itself has stated that the applicability of the debt collection measures discussed herein is considerably broad because it encompasses "*any 'claim' of the United States.*" *DCA Implementation NPRM*, 2 F.C.C.R. at 7340 (emphasis added). Under Section 13(b) of the DCA, the term "claim" includes "*amounts owing on account of loans insured or guaranteed by the United States and all other amounts due the United States from fees, duties, leases, rents, royalties, services, sales of real or personal property, overpayments, fines, penalties, damages, interest, taxes, forfeitures, and other sources.*" See DCA § 13(b), 96 Stat. 1758 (emphasis added); see also 47 C.F.R. § 1.1901(e).

¹² 4 C.F.R. § 102.2.

¹³ See 4 C.F.R. § 103.1(a).

referred to the Civil Litigation Branch of DOJ's Civil Division.¹⁴ If the agency thinks that suspension or termination of a claim exceeding \$20,000 is appropriate, it *must* refer the matter to DOJ and specify the reasons for its recommendation.¹⁵ In short, the DCA, taken together with the FCCS, eliminates any conflict for the Commission between its regulator and creditor roles, because DOJ, not the FCC, makes all significant decisions with respect to the post-licensing creditor role.¹⁶

Based on the foregoing, it is beyond question that the DCA and FCCS must be followed in considering any waiver or modification of the C and F Block installment debt payment requirements, to the extent such proposals involve a claim owed to the United States. In fact, the Commission has recently recognized the applicability of both the Title 31 DCA requirements and the Federal Claims Collection Standards to C Block licensees in default: "[W]e also note that the Commission's rules state that upon default, the Commission will cancel the license and initiate debt collection procedures" in accordance with "the Debt Collection Act, as amended, 31 U.S.C. Chapter 37, and Federal Claims Collection Standards, 4 C.F.R. Parts 101-105."¹⁷

Under the DCA and the FCCS, the Commission specifically and unambiguously lacks authority to compromise any claim exceeding \$100,000. If the Commission wishes to explore such a compromise, it must refer the matter to DOJ, which will decide whether compromise is appropriate

¹⁴ 4 C.F.R. § 103.1(b); *see also* 4 C.F.R. § 104.1(a). Claims for which the gross original amount is \$100,000 or less shall be referred to the United States Attorney in whose judicial district the debtor can be found. 4 C.F.R. § 103.1(b).

¹⁵ *See* 4 C.F.R. § 104.1(b). Standards governing the referral of claims to DOJ are found in Part 105 of Title 4 C.F.R.

¹⁶ *See* "Statement of Chairman Reed E. Hundt on the FCC's Fiscal Year 1998 Budget Estimates," before the Subcommittee on Commerce, Justice, State, and Judiciary, House Committee on Appropriations, at 7 (March 13, 1997), <<http://www.fcc.gov/Speeches/Hundt/spreh715.html>>.

¹⁷ *See* Letter from William E. Kennard, General Counsel, Federal Communications Commission to Leonard J. Kennedy, Esq., "Note and Security Agreement for C Block Licensees," DA 96-2123, at 5 (Dec. 17, 1996) ("Kennard Letter"), *recon. dismissed*, DA 97-1153 (June 2, 1997).

under the standards contained in the DCA and the FCCS. It should not give away billions of dollars in funds in direct violation of Federal law, potentially subjecting its employees to prosecution.

B. The Comments Fail To Show that the Commission Has Authority to Compromise Claims Through “Restructuring” of Loans

None of the comments addressed the DCA or the FCCS. Moreover, none of the comments cited any specific legal authority for their requests that the Commission “restructure” the installment loans of C and F block licensees. One commenter, NextWave, claimed that the Commission possesses inherent authority to modify the payment terms established at auction, based on the Commission’s generic authority under Section 4(i) to take necessary and proper actions to implement the Communications Act, the Commission’s general rulemaking authority, and the Commission’s authority to design and conduct auctions.¹⁸ However, none of these provisions of the Communications Act have anything to do with a reduction in debt owed to the Treasury, any more than they allow the Commission to engage in retroactive rulemaking.

It is indisputable that Section 309(j) gave the Commission authority to adopt installment payment plans to encourage participation by small businesses. Section 309(j) does *not*, however, contain any provision allowing the Commission to change the amount owed the government as the result of an auction, *after* the installment plans have been established, *after* the auction, and *after* the grant of licenses conditioned on making full payment in accordance with the rules.

¹⁸ NextWave Telecom, Inc. (“NextWave”) Comments at 24-26, *citing* 47 U.S.C. § 154(i), 303(r), 309(j). *See also* National Association of Black Owned Businesses, Inc. (“NABOB”) Comments at 5 and Urban Communicators PCS, L.P. (“Urban Communicators”) Comments at 8 (“There is no doubt that restructuring the PCS installment payments is fully within the Commission’s jurisdiction to the same degree that the creation of the present plan was within the Commission’s jurisdiction.”) NABOB and Urban Communicators also argue that the Commission’s obligation to eliminate market barriers for small businesses under Section 257 supports debt reduction as a policy matter. NABOB Comments at 4-6; Urban Communicators Comments at 6-9.

NextWave claims that the D.C. Circuit's *Mobile Communications Corp. of America v. FCC* decision confirms that the Commission has authority to change payment terms after grant.¹⁹ This case does not support NextWave's position. That case involved two separate but related grants: (1) grant of a pioneer's preference and (2) grant of a license to the preference holder. Mtel was awarded a pioneer's *preference* without charge and the Commission did not change that fact. Mtel was later awarded a license, and the order granting the license established payment terms for the license. While those terms were different from what Mtel might have expected at an earlier time, the Commission did not change the payment terms after grant of the license, which is what NextWave is asking here. The Court's holding that the Commission possesses authority to establish payment terms for a pioneer's preference license cannot be stretched to cover post-auction, post-license grant changes in installment payment obligations. Similarly, NextWave's citation of the *Greater Boston* principle that an agency may change its mind if it says why²⁰ does not address the issue of the Commission's statutory authority. *Greater Boston* does not hold that the Commission has the legal authority to change its mind about the amount of obligations owed to the U.S. Treasury, as long as it provides a reason. Title 31 forecloses such a reading.

II. THE COMMISSION SHOULD NOT COMPROMISE CLAIMS AGAINST C AND F BLOCK LICENSEES EVEN IF IT COULD DO SO

BellSouth agrees with the many commenters who urged the Commission not to restructure the installment debt of the C and F Block licensees, even assuming it had the authority to do so.²¹

¹⁹ NextWave Comments at 26, citing *Mobile Communications Corp. of America v. FCC*, 77 F.3d 1399 (D.C. Cir. 1996).

²⁰ NextWave Comments at 26, citing *Greater Boston Television Corp. v. FCC*, 444 F.2d 841, 852 (D.C. Cir. 1970), *cert. denied*, 403 U.S. 923 (1971).

²¹ See, e.g., ALLTEL Communications, Inc. Comments; Comcast Corp. Comments; Community Service Communications, Inc. Comments; Cook Inlet *et al.* Comments; Northcoast Communications, L.L.C. Comments; Pioneer Telephone Association, Inc. Comments; SpectrumWatch Comments; Sprint Corp. Comments; Sprint Spectrum L.P. Comments.

These licensees won their licenses in an auction — they bid their prices voluntarily, with full knowledge of the facts. They knew that the net C block prices greatly exceeded the A and B block prices, but they kept bidding. They knew that they would require massive infusions of capital to build systems, on top of the funding needed to pay for the licenses, but they kept bidding. They knew that capital market conditions could change rapidly, as they have in the past, but they kept bidding. They knew the FCC's stated rules, but they kept bidding. They received their licenses only after repeatedly outbidding other willing bidders for those licenses, in many cases long after prices had surpassed the A and B block levels.²² Reducing the net auction prices to the A and B block levels, as some have asked, would effectively end the bidding, retroactively, in the middle of Stage I of the auction for many markets.

What is the point of having an auction, and relying on market forces to determine the highest and best use of spectrum, if the winning bidder is not held to the auction outcome? If the Commission here decides to immunize willing bidders from the consequences of their bidding, albeit upon reflection foolish or reckless, then participants in future auctions will expect no less. Indeed, the *Public Notice* has already emboldened bidders in other completed auctions to ask for reductions in their payment obligations.²³ Moreover, if the Commission grants the relief requested here, what will it do a year later, when GWI or some other licensee comes back again for more, claiming that market conditions have gotten even worse? As Dewey Ballantine noted, “bestow[ing] yet additional benefits on such licensees . . . only postpones the proverbial ‘day of reckoning.’”²⁴

²² See Appendix to BellSouth Comments.

²³ See, e.g., CONXUS Communications, Inc. Comments at 5-11 (seeking relief for narrowband PCS designated entity licensees); Creative Airtime Services, LLC Comments at 3-7 (seeking relief for 900 MHz SMR providers); Morris Communications, Inc. Comments at 1, 5-8 (seeking relief for 900 MHz SMR licensees)..

²⁴ Dewey Ballantine Comments at 3.

The only way to avoid replacing auctions with repeated handouts is to avoid the slippery slope altogether: Deny the petitions for restructuring and make clear that licensees who cannot comply with their payment obligations will be in default and, after the requisite grace period, will lose their licenses and be subject to penalties. As *SpectrumWatch* stated in its Comments:

Rather than reward these licensees with debt relief schemes, the FCC should enforce its current debt repayment policies — even if license holders default. Reauctioning licenses that have defaulted is a far more preferable and equitable solution for taxpayers and, in fact, has been [the] Commission's intent all along. . . . We would find it particularly egregious if the Commission were to write down the principal owed to the federal government by licensees — as would the American public.²⁵

All C and F block applicants were aware that if they won, they would be responsible for making installment payments in accordance with the rules, even though they would also have to raise funds for construction and operation of their systems. They were also aware that the terms of their participation in the auction were “not negotiable,” and they agreed “to be bound by all of the Terms before making any bid.”²⁶ Moreover, they certified to the Commission that they were financially qualified on their FCC Form 175 applications,²⁷ after being reminded that “submission of a false certification to the Commission is a serious matter that may result in severe penalties including monetary forfeitures, license revocations, being barred from participating in future auctions, and/or criminal prosecution.”²⁸ If these licensees truthfully certified that they were financially qualified to hold PCS licenses and agreed that they would comply with their installment

²⁵ *SpectrumWatch* Comments at 2.

²⁶ FCC C Block Bidder Information Package at 42 (Aug. 2, 1995).

²⁷ See FCC 175, Certification 1, *reproduced in id.* at 109.

²⁸ *Id.* at 42.

payment obligations if they won, why are they now claiming that they are incapable of making the installment payments?²⁹

If, *arguendo*, the Commission were legally entitled to grant licensees some relief from their payment obligations, it should determine in each case whether the licensee had a reasonable basis for its certification that it was financially qualified. Any licensee requesting relief that is unable to demonstrate the truth of its pre-auction certification should not be permitted to obtain any further authorizations from the Commission until its qualifications are fully adjudicated.³⁰

There is no need for a detailed financial showing requirement in an auction if the winner's obligation to pay for its licenses must be satisfied at the time of grant. The licensee is either able or unable to meet its obligation in that case. This is not true when the government is providing financing. As the requests for relief demonstrate, the availability of subsidized installment financing without any means tests or creditworthiness requirements led some applicants to overextend themselves, and they claim that they will be unable to make their required payments. The Commission should ensure that this does not occur again in the future. In any future auction, including C block reauctions, the Commission should require by rule that all parties who intend to rely on the Commission's installment financing packages must make a detailed showing of their ability to make the required payments and to obtain the funds for construction and first-year operation of their systems.

The "restructuring" that some seek is far more than a rescheduling of payments — it is indeed a write-down of the loan, as some commenters forthrightly admit.³¹ And this write-down

²⁹ BellSouth notes that making false statements to the Commission under penalty of perjury is a felony. *See* 18 U.S.C. § 1001.

³⁰ *See MobileMedia Corp.*, WT Docket 97-115, *Order*, FCC 97-197 at ¶ 18 (June 6, 1997).

³¹ *See* Bear, Stearns & Co. ("Bear Stearns") Comments at 4 (urging the Commission to "allow[] the C-block licensees to prepay their FCC obligations at the restructured amount" to ensure that their

comes on top of the special benefits already conferred on these licensees — 25% bidding credits and installment financing. The existing financing plan constituted a subsidy to these licensees of \$2.5 to 3.5 billion, reducing the value of the \$10 billion C block auction revenue stream to \$6.5 to 7.5 billion. This subsidy is apparently not enough, however.

BellSouth has performed a discounted cash flow analysis of the consequences to the U.S. Treasury and the American taxpayer of granting some of the forms of relief described in the comments. This analysis, contained in the Appendix, shows that the MCI plan would reduce the present value of the cash flows from C block licensees below the present value of the existing installment payment plans by 10.7 to 15.8 percent, the two NextWave plans would result in reductions of 34.7 to 44.8 percent and 29.2 to 34.8 percent, and the GWI plan would result in reductions of 51 to 58.2 percent. The net amount of revenue due to the Treasury for C block licenses was originally \$10.07 billion, which has a present value of \$6.5 to \$7.5 billion, given the existing subsidized installment payment plans. These “restructuring” proposals would reduce the value of these cash flows to as little as \$3.13 billion, less than one-third of the net bid price and half of its current valuation!³² Other commenters go even farther, asking for elimination of interest altogether.³³ Bear Stearns showed that elimination of interest and deferring principal repayment to the twentieth year reduces the discounted value of the note to 6.4% of its face value.³⁴

licenses “are not subject to revocation for financial reasons,” thereby benefiting private financiers).

³² See Appendix, *Summary of Discounted Cash Flow Valuations of Various Financing Packages*, at 1; cf. Bear Stearns Comments at 2-3 & Attachment B (showing current market value of FCC installment financing under current rules and a variety of restructuring alternatives).

³³ See, e.g., AmeriCall International, LLC Comments at 5-8; Bear Stearns Comments at 3 & Attachment B; BIA Capital Corp. Comments at 3; General Wireless, Inc. Comments at 15; MCI Communications Corp. Comments at 3.

³⁴ Bear Stearns Comments at Attachment B.

Bear Stearns describes the situation of the licensees seeking relief by analogy to a home mortgage:

The essence of the C-block problem is that the value of the FCC obligation exceeds the value that equity investors are currently willing to assign to the entire company. A simple and imperfect analogy is a homeowner whose mortgage exceeds the market value of his house.³⁵

The home mortgage analogy actually illustrates clearly just how outrageous the “restructuring” requests are. In effect, the licensees bought houses at above-market prices, spending almost all of their capital on the ten percent down payment, and took out government-subsidized mortgages for the remaining 90%. Now the licensees discover that they cannot get second mortgages with which to make their payments on the first mortgage, because the first mortgage exceeds the value of the house. Instead of suffering the consequences of their reckless investment techniques, however, the licensees ask their mortgage lender to refinance at fifty cents on the dollar and convert the mortgage to a second mortgage, so they can get a new first mortgage for home improvement. Any rational lender would decline such a request and foreclose if the homeowner does not make the required payments. And that is just what the Commission should do.

³⁵

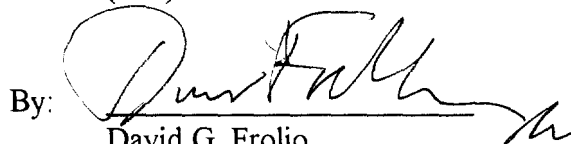
Bear Stearns Comments at 1.

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July 8, 1997.

APPENDIX

**SUMMARY OF DISCOUNTED CASH FLOW VALUATIONS OF VARIOUS
FINANCING PACKAGES**

(amounts in millions)

Original Net Amount of C Block Auction	\$10,071.7
DCF Value of Original FCC Plan*	\$6,502.83-----7,501.23
% of Original Net Amount	64.6%-----74.5%
 <u>Proposals in Support of Relief to C Block Licensees</u>	
1. MCI Plan	
DCF Value	\$5,473.47-----6,701.28
% of Original FCC Plan	84.2%-----89.3%
% of Original Net Amount	54.3 %-----66.5%
2. NextWave Plan A	
DCF Value	\$3,592.1-----4,900.8
% of Original FCC Plan	55.2 %-----65.3%
% of Original Net Amount	35.7%-----48.7%
3. NextWave Plan B	
DCF Value	\$4,238.0-----5,310.8
% of Original FCC Plan	65.2%-----70.8%
% of Original Net Amount	42.1%-----52.7%
4. GWI Plan	
DCF Value	\$3,189.3-----3,132.4
% of Original FCC Plan	49.0%-----41.8%
% of Original Net Amount	31.7%-----31.1%

* The discount rate is assumed to be in the range of 12-15%. It is also assumed that the subordination of the loan to vendor financing and working capital loans would increase the risk of the loan and would add an additional 3% to the applicable discount rate. The figures set forth below represent the range of DCF values based on the applicable range of discount rates, based on the assumptions described in this note.

Original FCC Terms Original Net Amount \$10,071.7

	10% Down Payment (\$ Millions)	Year 1 Interest Only	Year 2 Interest Only	Year 3 Interest Only	Year 4 Interest Only	Year 5 Interest Only	Year 6 Interest Only	Year 7 Interest Only	Year 8 Interest & Principal	Year 9 Interest & Principal	Year 10 Interest & Principal
Principal Payment	\$ 1,007.2	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,056.8	\$ 2,190.5	\$ 2,332.8
Principal Balance	\$ 9,064.5	\$ 9,064.5	\$ 9,064.5	\$ 9,064.5	\$ 9,064.5	\$ 9,064.5	\$ 9,064.5	\$ 9,064.5	\$ 7,007.8	\$ 4,817.3	\$ 2,484.5
Interest Payment		\$ 589.2	\$ 589.2	\$ 589.2	\$ 589.2	\$ 589.2	\$ 589.2	\$ 589.2	\$ 455.5	\$ 313.1	\$ 161.5
Total rec'd by FCC	\$ 1,007.2	\$ 589.2	\$ 589.2	\$ 589.2	\$ 589.2	\$ 589.2	\$ 589.2	\$ 589.2	\$ 2,646.0	\$ 2,646.0	\$ 2,646.0
Total NPV	-	1.0	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0	10.0
	\$1,007.2	\$526.1	\$469.7	\$419.4	\$374.4	\$334.3	\$298.5	\$1,196.9	\$1,068.7	\$954.2	\$851.9
	\$7,501.2	12.0% discount rate									
Total NPV	-	1.0	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0	10.0
	\$1,007.2	\$512.3	\$445.5	\$387.4	\$336.9	\$292.9	\$254.7	\$994.7	\$865.0	\$752.1	\$654.0
	\$6,502.8	15.0% discount rate									

Discount rate assumed to be in the range of 12% (as used by DLJ for valuations) and 15% (reflecting challenges facing C block licensees)

MCI Plan Original Net Amount \$10,071.7

	No Down Payment (\$ Millions)	Year 1 Accrued Interest Only	Year 2 Accrued Interest Only	Year 3 Accrued Interest Only	Year 4 Accrued Interest Only	Year 5 Accrued Interest Only	Year 6 Accrued Interest Only	Year 7 Repay Accrued Interest & Principal	Year 8 Repay Accrued Interest & Principal	Year 9 Repay Accrued Interest & Principal	Year 10 Repay Accrued Interest & Principal
Principal Payment	\$ 1,007.2	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 661.3	\$ 1,322.6	\$ 1,322.6	\$ 9,919.8
Principal Balance	\$ 9,064.5	\$ 9,653.7	\$ 10,281.2	\$ 10,949.5	\$ 11,661.2	\$ 12,419.2	\$ 13,226.5	\$ 12,565.1	\$ 11,242.5	\$ 9,919.8	\$ -
Accrued Interest		\$ 589.2	\$ 627.5	\$ 668.3	\$ 711.7	\$ 758.0	\$ 807.2				
Interest Payment		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 859.7	\$ 816.7	\$ 730.8	\$ 644.8
Total rec'd by FCC	\$ 1,007.2	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,521.0	\$ 2,139.4	\$ 2,053.4	\$ 10,584.6
Total NPV	-	1.0	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0	10.0
	\$1,007.2	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$688.0	\$864.1	\$740.5	\$3,401.5
	\$6,701.3	12.0% discount rate									
Total NPV	-	1.0	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0	10.0
	\$1,007.2	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$571.8	\$699.4	\$583.7	\$2,611.4
	\$5,473.5	15.0% discount rate									

Discount rate assumed to be in the range of 12% (as used by DLJ for valuations) and 15% (reflecting challenges facing C block licensees)

NextWave Plan A Original Net Amount \$10,071.7

	No Down Payment (\$ Millions)	Year 1 Accrued Interest Only	Year 2 Accrued Interest Only	Year 3 Accrued Interest Only	Year 4 Accrued Interest Only	Year 5 Accrued Interest Only	Year 6 Accrued Interest Only	Year 7 Accrued Interest Only	Year 8 Accrued Interest Only	Year 9 Interest Only	Year 10 Interest Only	Year 11 Interest Only	Year 12 Interest Only	Year 13 Interest Only	Year 14 Interest Only	Year 15 Interest Only	Year 16 Interest Only	Year 17 Interest Only	Year 18 Interest Only	Year 19 Interest Only	Year 20 Interest & Principal
Principal Payment	\$ 1,007.2	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,001.8
Principal Balance	\$ 9,064.5	\$ 9,853.7	\$ 10,281.2	\$ 10,949.5	\$ 11,661.2	\$ 12,419.2	\$ 13,226.5	\$ 14,086.2	\$ 15,001.8	\$ 15,001.8	\$ 15,001.8	\$ 15,001.8	\$ 15,001.8	\$ 15,001.8	\$ 15,001.8	\$ 15,001.8	\$ 15,001.8	\$ 15,001.8	\$ 15,001.8	\$ 15,001.8	\$ -
Accrued Interest		\$ 589.2	\$ 627.5	\$ 668.3	\$ 711.7	\$ 758.0	\$ 807.2	\$ 859.7	\$ 915.6	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest Payment		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 975.1	\$ 975.1	\$ 975.1	\$ 975.1	\$ 975.1	\$ 975.1	\$ 975.1	\$ 975.1	\$ 975.1	\$ 975.1	\$ 975.1	\$ -
Total rec'd by FCC	\$ 1,007.2	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 975.1	\$ 975.1	\$ 975.1	\$ 975.1	\$ 975.1	\$ 975.1	\$ 975.1	\$ 975.1	\$ 975.1	\$ 975.1	\$ 975.1	\$ 15,001.8
Total NPV	-	1.0	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0	10.0	11.0	12.0	13.0	14.0	15.0	16.0	17.0	18.0	19.0	20.0
	\$1,007.2	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$351.6	\$314.0	\$280.3	\$250.3	\$223.5	\$199.5	\$178.1	\$159.1	\$142.0	\$126.8	\$113.2	\$1,555.2
	\$4,900.8	15.0% discount rate																			
Total NPV	-	1.0	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0	10.0	11.0	12.0	13.0	14.0	15.0	16.0	17.0	18.0	19.0	20.0
	\$1,007.2	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$277.2	\$241.0	\$209.6	\$182.3	\$158.5	\$137.8	\$119.8	\$104.2	\$90.6	\$78.8	\$68.5	\$916.6
	\$3,582.1	18.0% discount rate																			

The range of discount rates is assumed to be 12-15% in the two NextWave proposals to reflect the greater risk to the US Government as a result of the subordination of loans to vendor and working capital loans.

NextWave Plan B Original Net Amount \$10,071.7

	No Down Payment (\$ Millions)	Year 1 Accrued Interest Only	Year 2 Accrued Interest Only	Year 3 Accrued Interest Only	Year 4 Accrued Interest Only	Year 5 Accrued Interest Only	Year 6 Accrued Interest Only	Year 7 Accrued Interest Only	Year 8 Principal & Interest Only	Year 9 Principal & Interest Only	Year 10 Principal & Interest Only	Year 11 Principal & Interest Only	Year 12 Principal & Interest Only	Year 13 Principal & Interest Only	Year 14 Principal & Interest Only	Year 15 Principal & Interest Only
Principal Payment	\$ 1,007.2	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,157.2	\$ 1,232.4	\$ 1,312.5	\$ 1,397.9	\$ 1,488.7	\$ 1,585.5	\$ 1,688.5	\$ 1,798.4
Principal Balance	\$ 9,064.5	\$ 9,064.5	\$ 9,064.5	\$ 9,064.5	\$ 9,853.7	\$ 10,281.2	\$ 10,949.5	\$ 11,661.2	\$ 10,504.0	\$ 9,271.6	\$ 7,959.0	\$ 6,561.2	\$ 5,072.4	\$ 3,486.9	\$ 1,798.4	\$ (0.0)
Accrued Interest	\$ -	\$ -	\$ -	\$ -	\$ 589.2	\$ 627.5	\$ 668.3	\$ 711.7	\$ 758.0	\$ 882.8	\$ 602.7	\$ 517.3	\$ 426.5	\$ 329.7	\$ 226.7	\$ 116.9
Interest Payment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 642.7	\$ 560.0	\$ 471.9	\$ 378.1	\$ 278.2	\$ 171.8	\$ 58.4
Total rec'd by FCC	\$ 1,007.2	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,915.2	\$ 1,915.2	\$ 1,915.2	\$ 1,915.2	\$ 1,915.2	\$ 1,915.2	\$ 1,915.2	\$ 1,915.2
Total NPV	-	1.0	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0	10.0	11.0	12.0	13.0	14.0	15.0
	\$1,007.2	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$773.5	\$690.6	\$616.6	\$550.6	\$491.6	\$438.9	\$391.9	\$349.9
	\$5,310.8	15.0% discount rate														
Total NPV	-	1.0	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0	10.0	11.0	12.0	13.0	14.0	15.0
	\$1,007.2	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$626.1	\$544.4	\$473.4	\$411.7	\$358.0	\$311.3	\$270.7	\$235.4
	\$4,238.0	18.0% discount rate														

GWI Plan Original Net Amount \$10,071.7
Adjusted Net Bid Amount \$3,849.0

	No Down Payment (\$ Millions)	Adjusted Principal Due
Principal Payment	\$1,007.17	
Principal Balance	\$9,064.5	\$2,841.8 <-Reflects paying for \$1,007.2 down payment already made
Accrued Interest		
Interest Payment		
Total rec'd by FCC	\$1,007.2	\$2,444.0 <-Reflects 14% discount on Year 1 Principal

NPV @ 12.0% \$3,189.3
15.0% \$3,132.4

Discount rate assumed to be in the range of 12% (as used by DLJ for valuations) and 15% (reflecting challenges facing C block licensees)

CERTIFICATE OF SERVICE

I, Crystal Clay, do hereby certify that copies of the foregoing "Reply Comments of BellSouth" in WT Docket No. 97-82, in response to *Public Notice* DA 97-679, were served by U.S. first-class mail, postage prepaid, on this 8th day of July 1997, to the persons listed below:

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